

SAN JOAQUIN AREA FLOOD CONTROL AGENCY

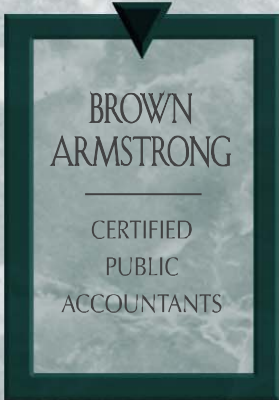
**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR YEAR ENDED JUNE 30, 2012

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
YEAR ENDED JUNE 30, 2012**

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Joaquin Area Flood Control Agency
Stockton, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (the Agency), as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
September 17, 2013

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2012**

This section of the San Joaquin Area Flood Control Agency's (the Agency) annual financial report represents a discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2012. It should be read in conjunction with the Agency's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

As a result of the Agency's refinancing (July 2002), the Agency reduced the average annual interest rate of the outstanding bonds and significantly reduced the bond debt which allowed the Agency to retire the bonds three years ahead of scheduled maturity on September 2, 2011. Due to the early retirement of the bonds, there were no assessment district collections for fiscal year 2011-12 and Flood Control Equalization Fees also ceased. Only the Operations and Maintenance assessments continue as the Agency's improvements need to be maintained.

The Agency's project was included in Federal legislation, which contains provisions for local agencies to plan, design, and construct flood control projects and be reimbursed for the Federal share of the project upon project completion. A Memorandum of Agreement with the U.S. Army Corps of Engineers (COE) signed on March 2, 2002, allowed reimbursement for the Federal share of the Agency project through the annual COE budgeting process. The Federal share is \$33,491,000. As of June 30, 2012, a total of \$22,868,020 has been reimbursed to the Agency by the Federal government. The balance of the remaining Federal cost share is \$10.6 million.

The Agency does not anticipate receiving cash reimbursements for the remaining Federal share; however, the Agency continues to pursue Federal reimbursement as credit towards future flood control projects and studies.

The State's share of the project was received in 1998 and totaled \$12,625,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Agency's basic financial statements include: 1) Government-Wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. Required Supplementary Information and Supplementary Information is included in addition to the basic financial statements.

Government-Wide Financial Statements provide an overview of the Agency's financial position. Refer to Note 2 (Notes to the Basic Financial Statements) for further information on significant accounting policies. The Statement of Net Assets presents information on all the Agency's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities presents information showing how net assets changed during the most recent fiscal year.

The Agency's assets are distributed among the different fund types. Most of the Agency's assets are capital assets acquired or constructed as part of the flood control improvements. The Agency's noncapital assets are mostly cash and cash equivalents. The County of San Joaquin (the County) maintains the cash pools for the Agency.

The Agency's assets are mostly derived from the original assessment and the proceeds of the bonds issued in 1996, and interest income on the balances from these assets. Other sources of funds include Flood Control Equalization Fees, which were collected for the Agency by the County and the City of Stockton (the City) when building permits were issued to new development within the Agency's assessment district boundaries.

As part of the Stockton Metropolitan Watershed, the Agency also acquired the right-of-way needed for the project from property owners and these are classified under assets as land. In 2003, the Agency transferred to the State of California all real property associated with the project. However, the Central Valley Flood Protection Board (formerly the State of California Reclamation Board) has not accepted the federally authorized project alluding i) the project was not authorized by the State legislature, and ii) the

need for more formal indemnification assurance. When the Central Valley Flood Protection Board agrees to designate the project as part of the State of Plan Flood Control, the Agency will no longer carry these assets.

Governmental Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other State and local governmental agencies, uses fund accounting; each fund having its own self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The Agency funds are divided into four categories: General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

The General Fund accounts for funds loaned to the Agency in 1995 by the City and County for the initial funding of the project activities. The City and County loans have been paid, and after the bond money was received, additional funds were created.

The Special Revenue Funds include the following funds: 1) Maintenance and Operations Fund which is used to account for resources held for the operations and maintenance (O&M) of flood control structures. The Agency created a special assessment in 1996 for the continued maintenance of the flood structures. Collection of the assessment will continue until a terminating resolution is adopted by the Agency. Assessments are collected as a line item in property tax bills and are deposited in the Maintenance and Operations Fund. The use of O&M funds is legally restricted to the O&M activities identified in the Agency's annual O&M budget. 2) The FEMA Grant Fund was created during fiscal year 2009-2010 to account for the disbursement of grant funds related to a Cooperative Technical Partner agreement between the Agency and FEMA. The grant money was used to pay for updated stage-frequency curves for the San Joaquin River Delta, various mapping activities to provide enhanced damage reduction for areas protected by levees, and administrative costs associated with managing the grant activities.

The Capital Projects Funds account for all resources in place for the acquisition of capital facilities by the Agency. The original assessments, Flood Control Equalization Fees, proceeds of the bond issue, interest income, and the transferred Environmental Fund balance are the sources of funds for the Capital Projects Fund. The Federal and State reimbursements are also included in this fund.

The Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related bond costs. Required interest and principal payments are made according to the terms of the bond issue. Assessment district payments collected from property owners through the property tax system are deposited in the Debt Service Fund. Debt service payments are paid out of the same fund.

Notes to the Basic Financial Statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information: In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information and supplementary information. This information includes a budgetary comparison schedule for the Agency's governmental funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

This fiscal year is the eleventh accounting period in which the Agency has applied Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. As noted earlier, net assets provide an overview of the Agency's financial position.

The following table shows that the Agency's assets exceeded liabilities by about \$60 million (\$60,869,954 - \$541,453) as of June 30, 2012, and the net assets decreased by \$3,423,656 (\$60,328,501 - \$63,752,157) compared with the prior year:

STATEMENT OF NET ASSETS

	2012	2011
ASSETS		
Current assets	\$ 17,021,276	\$ 20,686,925
Capital assets	43,848,678	44,749,796
Other assets	-	2,035,277
TOTAL ASSETS	60,869,954	67,471,998
LIABILITIES		
Current liabilities	541,453	1,141,841
Long-term liabilities	-	2,578,000
TOTAL LIABILITIES	541,453	3,719,841
NET ASSETS		
Invested in capital assets, net of related debt	43,848,678	41,451,576
Restricted for debt service	-	4,635,014
Unrestricted	16,479,823	17,665,567
TOTAL NET ASSETS	\$ 60,328,501	\$ 63,752,157

The Agency's capital net assets for the year ended June 30, 2012: Land and Easements \$9,678,245 and Flood Control Infrastructure net of depreciation \$34,170,433 totaling \$43,848,678 represent approximately 72% of the Agency's total assets (see Capital Assets table on page 7). These capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency.

The following table identifies the changes in net assets for the fiscal years ended June 30, 2012 and 2011:

STATEMENT OF ACTIVITIES

	2012	2011
REVENUES		
Assessments	\$ 796,335	\$ 2,946,313
Aid from other government agencies	334,609	471,894
Investment earnings	56,662	127,730
Miscellaneous	3,062	1,532
Total revenues	1,190,668	3,547,469
EXPENSES		
Operation and management	1,773,175	1,884,271
Agency management	1,737,267	1,799,019
Other expenses	1,103,882	537,493
Total expenses	4,614,324	4,220,783
Change in net assets	(3,423,656)	(673,314)
NET ASSETS		
Beginning net assets	63,752,157	64,425,471
Net assets, end of the year	\$ 60,328,501	\$ 63,752,157

The Agency receives revenues from sources which include operations and maintenance (O&M) assessments, interest and investment income, and project reimbursements from the State and the Federal government. Other sources of revenue are received through partnership agreements with other local and government agencies to help fund flood studies or related flood control activities approved by the Board of Directors. The collection of O&M assessments can only be used to maintain and operate the flood control structures.

Revenues decreased by approximately 66% (from \$3,547,469 in fiscal year 2011 to \$1,190,668 in fiscal year 2012). The decrease was mainly due to the assessment district termination.

Expenses increased by approximately 9% (from \$4,220,783 in fiscal year 2011 to \$4,614,324 in fiscal year 2012). This increase is due to costs associated with bond issuance.

FINANCIAL ANALYSIS OF AGENCY FUNDS

The General Fund accounts for those funds loaned to the Agency in 1995 by the City and County for the initial funding of the project activities. As the City and County loans have been paid, the activities in this fund will remain basically the same every year.

Special Revenue Funds Appropriate operations and maintenance assessments are collected annually through property assessments and are deposited in the Maintenance and Operations Fund. These monies are limited to O&M of the flood control structures built by the Agency. The annual budget for O&M is prepared in coordination with the San Joaquin County Public Works Department and approved by the Agency's Board of Directors.

A budget of \$1,099,844 was considered appropriate this year (2011-12) for O&M. The budget is higher than prior years due to additional appropriations to address stringent levee standards from regulatory agencies. The Maintenance and Operations Fund had a balance of approximately \$3.6 million on June 30, 2012.

The Capital Projects Funds Capital Projects Funds reported a combined fund balance of \$11,918,577. These funds are available to meet the Agency's current and future needs.

Debt Service Funds consist of the Debt Service Fund, Prepayment Fund, Redemption Fund, and Reserve Fund. Resources in these funds are for the payment of general long-term debt principal, interest, and related costs.

INFRASTRUCTURE ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's capital assets net of related debt as of June 30, 2012, amounted to \$43,848,678. These capital assets include land (right-of-way acquired for the project) and flood control infrastructures. The area protected by the Agency is about 38,700 gross acres of land with approximately 74,000 parcels in the County. The Agency completed the main construction of the flood control improvements project in November 1998, and since then, no major construction has been undertaken. However, authorized project studies and investigation may lead to new projects. Apart from normal depreciation, there were no changes in capital assets during fiscal year ended June 30, 2012.

Capital Assets
(net of accumulated depreciation)

	2012	2011
Land and easements	\$ 9,678,245	\$ 9,678,245
Infrastructure assets, net	34,170,433	35,071,551
Total	\$ 43,848,678	\$ 44,749,796

Total accumulated depreciation as of June 30, 2012, is \$10,888,171. Therefore, the net infrastructure asset is \$34,170,433 (\$45,058,604 - \$10,888,171). The infrastructure assets are being depreciated over a life of 50 years.

As noted earlier, these capital assets are the flood control improvements constructed by the Agency and are considered assets belonging temporarily to the Agency. Land acquired by the Agency for right-of-way purposes was turned over to the Central Valley Flood Protection Board; however, the Board has not accepted the federally authorized project. Therefore, when the Board agrees to designate the project as part of the State Plan of Flood Control, the Agency will no longer carry these assets.

Long-Term Debt

As of June 30, 2012, the Agency does not have any long-term debt. The Agency retired the bonds initially sold in 1996 and refinanced in July of 2002. These bonds were retired three years ahead of scheduled maturity on September 2, 2011.

AGENCY OPERATIONS

The Agency completed the main construction of its \$70 million flood control improvements project in November 1998. In past years, due to the ongoing concern of levee decertification by FEMA, the State Department of Water Resources, and the COE; the Board of Directors held some Capital Project funds in reserve to remedy levee decertification. During fiscal year 2009-10, the Board of Directors authorized technical studies and investigations using these funds. These technical studies and investigations may lead to future projects. Currently, the Agency is participating in flood control studies and investigations which will provide or restore the required level of protection for parcels within the Agency's assessment district area.

Before undertaking any new projects, the Agency must determine whether the proposed project will meet the necessary criteria for which funds are available for expenditure. During this fiscal year (2011-12), the Board of Directors approved the following: i) a \$80,617 contract to update mapping guides and model maps related to a FEMA Cooperative Technical Partner agreement; ii) a \$15,885 contract amendment to suspend and restart the formation of the Capital and O&M assessment district for the Smith Canal Gate project; iii) a \$2,765 contract amendment to suspend the Smith Canal Gate Proposition 218 Election.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Agency's Executive Director, James B. Giottonini at 22 E. Weber Avenue, Room 301, Stockton, California 95202.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 16,997,794
Assessments receivable	14,480
Interest income receivable	9,002
Total current assets	17,021,276
Capital assets:	
Land and easements	9,678,245
Infrastructure assets, net	34,170,433
Total capital assets	43,848,678
Total assets	\$ 60,869,954
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 541,453
Total liabilities	541,453
Net assets:	
Invested in capital assets, net of related debt	43,848,678
Unrestricted	16,479,823
Total net assets	\$ 60,328,501

See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Functions / Programs</u>	<u>Program Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:				
Operations and maintenance	\$ 1,773,175	\$ 23,575	\$ -	\$ (1,749,600)
Agency management	1,737,267	311,034	-	(1,426,233)
Interest and other charges	<u>1,103,882</u>	<u>-</u>	<u>-</u>	<u>(1,103,882)</u>
Total governmental activities	<u><u>\$ 4,614,324</u></u>	<u><u>\$ 334,609</u></u>	<u><u>\$ -</u></u>	<u><u>(4,279,715)</u></u>
General revenues:				
Assessments fees				796,335
Investment earnings				56,662
Miscellaneous income				<u>3,062</u>
Total general revenues				<u>856,059</u>
Change in net assets				<u>(3,423,656)</u>
Net assets, beginning of year				<u>63,752,157</u>
Net assets, end of year				<u><u>\$ 60,328,501</u></u>

Interest income of \$311,034 is included under operating grants of Agency management.

See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Maintenance and Operations Fund	FEMA Grant Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund
ASSETS					
Cash and cash equivalents	\$ 635,537	\$ 3,832,101	\$ -	\$ -	\$ 7,027,499
Assessment receivable	-	-	10,332	-	4,148
Interest income receivable	328	1,969	10	563	3,225
TOTAL ASSETS	\$ 635,865	\$ 3,834,070	\$ 10,342	\$ 563	\$ 7,034,872
LIABILITIES					
Accounts payable	-	252,996	10,332	-	198,036
Total liabilities	-	252,996	10,332	-	198,036
FUND BALANCES					
Restricted	-	3,581,074	10	-	-
Assigned	-	-	-	563	6,836,836
Unassigned	635,865	-	-	-	-
Total fund balances	635,865	3,581,074	10	563	6,836,836
TOTAL LIABILITIES AND FUND BALANCES	\$ 635,865	\$ 3,834,070	\$ 10,342	\$ 563	\$ 7,034,872

See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BALANCE SHEET (Continued)
JUNE 30, 2012**

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,158,545	\$ 344,112	\$ -	\$ 16,997,794
Assessment receivable	-	-	-	14,480
Interest income receivable	2,722	177	8	9,002
TOTAL ASSETS	\$ 5,161,267	\$ 344,289	\$ 8	\$ 17,021,276
LIABILITIES				
Accounts payable	\$ 80,089	-	-	\$ 541,453
Total liabilities	80,089	-	-	541,453
FUND BALANCES				
Restricted	-	344,289	-	3,925,373
Assigned	5,081,178	-	8	11,918,585
Unassigned	-	-	-	635,865
Total fund balances	5,081,178	344,289	8	16,479,823
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,161,267	\$ 344,289	\$ 8	\$ 17,021,276

See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balances - Governmental Funds	\$ 16,479,823
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

Infrastructure assets, land, and easements	\$ 54,736,849	
Less: accumulated depreciation	<u>(10,888,171)</u>	
		<u>43,848,678</u>

Net Assets of Governmental Activities	<u>\$ 60,328,501</u>
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See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Maintenance and Operations Fund	FEMA Grant Fund	Lower San Joaquin River Feasibility Study Fund	Construction #1 Fund
Revenues:					
Assessments	\$ -	\$ 788,152	\$ -	\$ -	\$ -
Investment earnings	2,053	12,142	74	2,396	21,801
Federal	-	-	23,575	-	-
Other government agency aid	-	-	-	306,885	4,149
Miscellaneous	-	374	-	-	2,688
Total revenues	2,053	800,668	23,649	309,281	28,638
Expenditures:					
Current operating:					
Maintenance and operations	-	921,954	21,244	-	661,871
Agency management	-	-	143	-	587,004
Debt service:					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Total expenditures	-	921,954	21,387	-	1,248,875
Other financing sources (uses):					
Transfers in	-	-	-	-	1,137,779
Transfers out	(3)	-	(21,724)	(1,099,239)	-
Total other financing sources (uses)	(3)	-	(21,724)	(1,099,239)	1,137,779
Net change in fund balances	2,050	(121,286)	(19,462)	(789,958)	(82,458)
Fund balances, beginning	633,815	3,702,360	19,472	790,521	6,919,294
Fund balances, ending	\$ 635,865	\$ 3,581,074	\$ 10	\$ 563	\$ 6,836,836

See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

	Construction #3 Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Assessments	\$ -	\$ (203)	\$ 8,386	\$ 796,335
Investment earnings	17,167	996	33	56,662
Federal	-	-	-	23,575
Other government agency aid	-	-	-	311,034
Miscellaneous	-	-	-	3,062
	<u>17,167</u>	<u>793</u>	<u>8,419</u>	<u>1,190,668</u>
Total revenues				
Expenditures:				
Current operating:				
Maintenance and operations	167,956	138	12	1,773,175
Agency management	249,002	-	-	836,149
Debt service:				
Principal	-	4,110,000	-	4,110,000
Interest and other charges	-	181,380	-	181,380
	<u>416,958</u>	<u>4,291,518</u>	<u>12</u>	<u>6,900,704</u>
Total expenditures				
Other financing sources (uses):				
Transfers in	-	-	3	1,137,782
Transfers out	-	-	(16,816)	(1,137,782)
	<u>-</u>	<u>-</u>	<u>(16,813)</u>	<u>-</u>
Total other financing sources (uses)				
Net change in fund balances	<u>(399,791)</u>	<u>(4,290,725)</u>	<u>(8,406)</u>	<u>(5,710,036)</u>
Fund balances, beginning	<u>5,480,969</u>	<u>4,635,014</u>	<u>8,414</u>	<u>22,189,859</u>
Fund balances, ending	<u>\$ 5,081,178</u>	<u>\$ 344,289</u>	<u>\$ 8</u>	<u>\$ 16,479,823</u>

See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net Change in Fund Balances - Governmental Funds \$ (5,710,036)

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

When capital assets that are to be used in Governmental Activities are purchased or constructed, the resources expended for those assets are reported as expenditures in the Governmental Funds. This is the amount of capital assets additions and depreciation recorded in current year.

Depreciation expense	<u>\$ (901,118)</u>	(901,118)
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The issuance of long-term debt provides current financial resources to Governmental Funds, while the repayment of principal of long-term debt consumes the current financial resources of Governmental Funds. Neither transaction, however, has any effect on net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the Governmental Funds, but deferred and amortized throughout the period during which the related debt is outstanding in the Statement of Activities.

Repayment of bond principal	4,110,000	
Amortization of bond issuance cost	(167,644)	
Amortization of deferred loss	(812,168)	
Amortization of bond premium	<u>388</u>	
		3,130,576

The amounts below included in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds. The amounts shown below represent the net change.

Interest payable		<u>56,922</u>
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Changes in Net Assets of Governmental Activities		<u><u>\$ (3,423,656)</u></u>
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See independent auditor's report and notes to the basic financial statements.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 – DESCRIPTION OF THE AGENCY

The San Joaquin Area Flood Control Agency (the Agency) is the result of a joint powers agreement (JPA) between the City of Stockton (the City), the County of San Joaquin (the County), and the San Joaquin County Flood Control and Water Conservation District (the District). The Agency was formed on May 25, 1995, for the purposes of undertaking the acquisition, construction, and/or installation of improvements to flood control channels in the City and the portion of unincorporated areas of the County adjacent thereto (the Project), in order to provide a 100-year flood protection to these areas. The Agency is a public entity pursuant to the provisions of Articles 1-4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. The basic operations of the Agency are financed as a part of the Project operations and costs. An annual special assessment based on total costs of the Project was assessed during the year ended June 30, 1996. The assessment paid for Project costs and bond repayment. The Agency retired the bonds three years ahead of scheduled maturity on September 2, 2011. During the year ended June 30, 1997, an additional annual special assessment was approved for the continued maintenance of the flood project structures. Collections of the June 30, 1997, assessment will continue, until adoption of a terminating resolution, to finance the maintenance of the flood project structures.

The Agency's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and local governments through its pronouncements (Standards and Interpretations).

The Agency applies all applicable GASB pronouncements (including all National Council on Governmental Accounting (NCGA) statements and interpretations currently in effect for fiscal year ending June 30, 2012) as well as the following pronouncements issued on or before November 30, 1999, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

A. Financial Agency

The Agency's basic financial statements include the accounts of all Agency operations. The Agency's basic financial statements do not include operations of the associated governmental agencies involved in the joint power agency, namely, the City, the County, and the District.

B. Basis of Presentation – Government-Wide Accounting

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities and report financial information on the Agency as a whole. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for functions of the Agency's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 2) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Other items not properly included are reported instead as general revenues and expenses.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Fund Accounting

Fund financial statements provide information about the Agency's funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency does not have any proprietary or fiduciary funds.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized in the year for which they are levied.

The governmental fund financial statements are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within 60 days after year-end. Expenditures are recorded when the related liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year they are due.

The major sources of revenues susceptible to accrual are assessments of property owners and investment income.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as needed.

E. Allocation of Indirect Expenses

The Agency allocates indirect expenses, primarily comprised of administrative services, to Agency management functions. Administrative services include accounting, financial reporting, payroll reimbursement, investing and cash management, personnel services, and other administrative services.

F. Fund Types and Major Funds

The Agency reported the following major governmental funds in the accompanying financial statements:

General Fund – Accounts for project expenses, including, but not limited to, construction; consultants; and salaries reimbursement.

Construction #1 and #3 Funds – Accounts for all resources for the acquisition of capital facilities by the Agency. The Project of the Agency is to construct these facilities. The original assessment and proceeds of the bond issue are the sources of funds. Recorded income sources include assessment fees collected by the County Tax Collector and reimbursement from the Federal government.

Lower San Joaquin River Feasibility Fund – This fund was established to account for a funding partnership between local cost share partners to help pay for the U.S. Army Corps of Engineers' (USACE) Lower San Joaquin River Feasibility Study. The Agency entered into a cost share agreement with the City of Stockton, San Joaquin County Flood Control and Water Conservation District, and 11 reclamation districts to help pay for the local share of this study. The revenues collected in this fund are transferred annually at the end of the fiscal year to the Agency's Construction #1 Fund.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Types and Major Funds (Continued)

Maintenance and Operations Fund – Accounts for the collection of special assessments from property owners within the Agency’s assessment district for the maintenance of the flood structures. Proceeds are restricted to the operations and maintenance (O&M) activities identified in the O&M budget.

FEMA Grant Fund – Accounts for resources used to pay for specific projects related to a Cooperative Technical Partner agreement between the Agency and FEMA. The resources are used to pay for updated stage-frequency curves for the San Joaquin River Delta, various mapping activities to provide enhanced damage reduction for areas protected by levees, and reimbursement for administrative costs associated with managing the grant activities.

Debt Service Fund – Accounts for the accumulation of financial resources for the payment of principal and interest on the Agency’s general obligation debt. Required interest and principal payments are made according to the terms of the bond issue.

G. Cash and Cash Equivalents

The Agency maintains a large portion of its cash in the County Treasury. The County pools these funds with those of other agencies in the County and invests the cash.

H. Infrastructure Assets and Depreciation

The Agency’s infrastructure assets with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Agency generally capitalizes all assets as construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Infrastructure assets are depreciated using the straight-line method over a useful life of 50 years.

I. Long-Term Debt, Deferred Debt Expense, and Bond Discount/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method. The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

J. Reservation of Fund Balances

The Agency records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure in the governmental funds Balance Sheet. If restricted and unrestricted net assets are available for the same purpose, then restricted net assets will be used before unrestricted net assets.

K. Restriction of Net Assets

Net assets are the excess of all the Agency’s assets over all its liabilities, regardless of fund. Net assets are divided into three captions under GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. These captions apply only to net assets, which are determined only at the government-wide level, and are described below:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation, less the outstanding balance of any debt issued to finance these assets.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Restriction of Net Assets (Continued)

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation, and constitutional provisions.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

L. Assessment Tax

The County collects the Agency’s assessment tax revenue as part of the County’s property taxes. The County’s secured property tax payments are levied in two equal installments: the first is generally due November 1 and delinquent with penalties after December 10; the second is due February 1 and delinquent with penalties after April 10. Secured property with unpaid taxes incurs a lien on January 1 preceding the fiscal year for which taxes are levied. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid on August 31.

M. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

N. Fund Balance

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described below:

1. Nonspendable Fund Balance – amounts that are inherently nonspendable such as inventory or long-term receivables.
2. Restricted Fund Balance – amounts that have externally enforceable limitations on use that are either imposed by law or constrained by grantors, contributors, or laws and regulations of other governments.
3. Committed Fund Balance – amounts that can only be used for specific purposes determined by formal action of the Agency’s highest level of decision-making authority, the Board of Directors. These committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use through the same type of formal action taken to establish the commitment. The formal action must occur prior to the end of the reporting period; however, the amount can be determined subsequently.
4. Assigned Fund Balance – amounts that are constrained by the Agency’s *intent* to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. The intent can be expressed by the Board of Directors itself or by an official to which the governing body has delegated the authority.
5. Unassigned Fund Balance – the residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories. This amount is reported only in the General Fund except in cases of negative fund balance. Negative fund balances in other governmental funds are reported as Unassigned Fund Balance.

The accounting policies of the Agency consider restricted fund balance to have been spent first when an expenditure is incurred if both restricted and unrestricted fund balance are available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts, and then unassigned amounts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance (Continued)

Most non-general funds were designated for one purpose at the time of their creation. Therefore, expenditures made out of a fund will be allocated to the applicable fund balance classifications in the order of the spending policy above.

O. New Accounting Pronouncements – Current Year

Governmental Accounting Standards Board Statement No. 62

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was released in December 2010. The codification incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements:

1. FASB Statements and Interpretations
2. APB Opinions
3. ARBs of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

No new accounting principles generally accepted in the United States of America were released in this statement. GASB Statement No. 62 is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the Agency's accounting or financial reporting upon the statement's implementation.

Governmental Accounting Standards Board Statement No. 63

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was released in June 2011. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previously, GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 63 is effective for periods beginning after December 15, 2011.

P. New Accounting Pronouncements – Future Years

Governmental Accounting Standards Board Statement No. 65

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was released in March 2012. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Agency has not elected to early implement this statement.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. New Accounting Pronouncements – Future Years (Continued)

Governmental Accounting Standards Board Statement No. 66

GASB Statement No. 66, *Technical Corrections - An Amendment of GASB Statements No. 10 and No. 62*, was also released in March 2012. GASB Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. GASB Statement No. 66 also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Agency has not elected to early implement this statement.

Governmental Accounting Standards Board Statement No. 67

GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, released in June 2012, will not apply to the Agency as the Agency is not a defined benefit pension plan.

Governmental Accounting Standards Board Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, was released in June 2012. GASB Statement No. 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB Statement No. 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employees whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. In addition, GASB Statement No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. GASB Statement No. 68 also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. Various new note disclosures and required supplementary information will be presented. GASB Statement No. 68 is effective for fiscal years beginning after June 15, 2014. GASB Statement No. 68 does not apply to the Agency.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Reclassification

Certain reclassifications have been made to the prior year financial statements to be in conformity with the fiscal year 2011 presentation.

NOTE 3 – DETAILED NOTES ON FUNDS

ASSETS

A. Cash in County Treasury

The Agency maintains a large portion of its cash in the County Treasury as part of the common investment pool (the Pool), which had a carrying value of \$16,997,794 as of June 30, 2012. The fair value of the Agency's portion of the Pool as of June 30, 2011, was \$20,622,957.

The Agency is considered to be an involuntary participant in the external investment Pool. The Pool has established a treasury oversight committee to monitor and review the management of public funds maintained in the Pool.

Participants' equity in the Pool is determined by the dollar amount of the participant's deposits, adjusted for withdrawals and distributed investment income. Investment income is prorated to individual funds based on their average daily cash balances.

The value of the Agency's shares in the Pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the Pool. The Agency's investment in the Pool is unrated, stated at amortized cost which approximates fair value, available on demand, and considered cash equivalents.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment the greater the sensitivity of fair value to changes in market interest rate. As of year-end, the weighted average maturity of the investments contained in the Pool was approximately one year.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. California statutes and the County's investment policy limit the County investments to obligations of the U.S. Treasury, certain Federal agencies, bankers' acceptances, "prime" commercial paper, certificates of deposit, swaps and trades, State Treasurer's Local Agency Investment Fund, and repurchase agreements. Credit ratings as of June 30, 2012, of the pool investments are presented below.

Concentration of Credit Risk – Concentration of credit risk is the loss risk attributed to the magnitude of a government's investment in a single issuer. The County's investment policy places certain maximum percentage limitations of investments by investment type and the Treasurer has adhered to this policy with no exception. As of June 30, 2012, the County's investments by investment type as the percentage of the Pool investments are shown below.

Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The County issues a financial report that includes custodial credit risk disclosures for the cash in the County Treasury. The report may be obtained by writing to the County Treasurer, 44 North San Joaquin Street, Stockton, California 95202.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

ASSETS (Continued)

B. Assessments Receivable

Assessments are collected and remitted to the County Tax Collector. The County Tax Collector's office transfers the assessment amount to the Agency's fund held by the County Treasury.

In the governmental fund financial statements, assessments receivable are recorded in the Special Revenue Funds and the Debt Service Fund.

In the government-wide financial statements, assessments receivable include all amounts due to the Agency regardless of when the cash is received.

C. Capital Assets

The following table provides a summary of changes in capital assets:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Nondepreciable capital assets:				
Land and easements	<u>\$ 9,678,245</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,678,245</u>
Total nondepreciable capital assets	<u>9,678,245</u>	<u>-</u>	<u>-</u>	<u>9,678,245</u>
Depreciable capital assets:				
Infrastructure assets	<u>45,058,604</u>	<u>-</u>	<u>-</u>	<u>45,058,604</u>
Total depreciable capital assets	<u>45,058,604</u>	<u>-</u>	<u>-</u>	<u>45,058,604</u>
Less accumulated depreciation	<u>(9,987,053)</u>	<u>(901,118)</u>		<u>(10,888,171)</u>
Net depreciable capital assets	<u>35,071,551</u>	<u>(901,118)</u>	<u>-</u>	<u>34,170,433</u>
Net capital assets	<u>\$ 44,749,796</u>	<u>\$ (901,118)</u>	<u>\$ -</u>	<u>\$ 43,848,678</u>

Depreciation expense of \$901,118 was charged to functions of the government as Agency management.

LIABILITIES

D. Accounts Payable

Significant payables include amounts due to a related party. See Note 5 for information describing related parties. Other payable amounts are due to vendors for services rendered prior to the fiscal year-end.

E. Long-Term Debt

During the year ended June 30, 2003, the Agency was able to issue bonds for the remainder of the Project, with an interest rate ranging 2.50% – 4.30%. The bonds are secured by the assessments levied on parcels within the Agency. The Agency made principal payments of \$4,110,000 during the year ended June 30, 2012, of which \$3,140,000 was called.

Interest costs are incurred on the long-term bonds. In the year ended June 30, 2012, the Debt Service Fund incurred \$85,383 of interest costs.

NOTE 3 – DETAILED NOTES ON FUNDS (Continued)

LIABILITIES (Continued)

F. Outstanding Bonds, Maturity Dates, and Interest Rates

	<u>Amount of Original Issue</u>	<u>Range of Maturity Dates</u>	<u>Range of Interest Rates</u>
Limited obligation bonds	\$ 22,975,000	2003-2014	2.50% - 4.30%

G. Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Bonds	\$ 4,110,000	\$ -	\$ 4,110,000	\$ -	\$ -
Premium	388	-	388	-	-
Deferred loss	(812,168)	-	(812,168)	-	-
Total	<u>\$ 3,298,220</u>	<u>\$ -</u>	<u>\$ 3,298,220</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4 – INTERFUND TRANSFERS

A. Transfers and Payments

Transfers and payments within the Agency are for the purpose of subsidizing operating functions. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide Statement of Activities eliminates transfers as reported within the segregated governmental columns. Only transfers between the columns appear in this statement.

The following schedule reports transfers and payments within the Agency:

	<u>Transfers from</u>	<u>Transfers to</u>
General Fund	\$ 3	\$ -
FEMA Grant Fund	21,724	-
Construction #1 Fund	-	1,137,779
Lower San Joaquin River Feasibility Study	1,099,239	-
Other Governmental Funds	16,816	3
Total	<u>\$ 1,137,782</u>	<u>\$ 1,137,782</u>

These transfers occurred for the purpose of funding operating cash needed by certain funds.

NOTE 5 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2012, the Agency has approved payments to members of the JPA for services and personnel costs of the Agency from inception to present date. These payments were approved by the Board of Directors resolutions at the initial setup of the Agency. These costs are accumulated in the Agency administrative costs. Payments are made in the year following the year they are incurred. Amounts due to the related party during the fiscal year ended June 30, 2012, were \$463,416.

NOTE 6 – COMMITMENTS

To address Federal (FEMA, U.S. Army Corps of Engineers), State (Department of Water Resources, Senate Bill 5), and local flood control issues, the Board of Directors took the following actions during 2008-09: the signing of two 3-year consultant contracts, each in the amount of \$1.5 million, with Peterson Brustad, Inc., and Wood Rodgers, Inc., for technical support related to levee and other flood control activities. These contracts provided the Agency with the ability to address issues related to the disaccreditation and provisional accreditation of area levees by the FEMA Map Modernization Program. In addition, the Agency entered into a \$10 million cost-share agreement with the U.S. Army Corps of Engineers and the Central Valley Flood Protection Board for a Feasibility Study for the San Joaquin River (local responsibility \$2.5 million). Information from the study will be used to develop a plan to reach 200-year level of flood protection for urban and urbanizing areas as required by State Senate Bill 5.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 17, 2013, which is the date the financial statements were issued.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Assessments	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	2,053	2,053
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>2,053</u>	<u>2,053</u>
Expenditures:				
Maintenance and operations	-	-	-	-
Reserves/emergencies	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(3)	(3)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(3)</u>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	2,050	<u>\$ 2,050</u>
Fund balances, beginning			<u>633,815</u>	
Fund balances, end			<u>\$ 635,865</u>	

See independent auditor's report and notes to the required supplementary information.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

	Maintenance and Operations Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Assessments	\$ 788,621	\$ 788,621	\$ 788,152	\$ (469)
Investment earnings	-	-	12,142	12,142
Miscellaneous	-	-	374	374
Total revenues	788,621	788,621	800,668	12,047
Expenditures:				
Maintenance and operations	788,621	999,844	921,954	77,890
Reserves/emergencies	100,000	100,000	-	100,000
Total expenditures	888,621	1,099,844	921,954	177,890
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ (100,000)</u>	<u>\$ (311,223)</u>	(121,286)	<u>\$ 189,937</u>
Fund balances, beginning			3,702,360	
Fund balances, end			<u>\$ 3,581,074</u>	

See independent auditor's report and notes to the required supplementary information.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
BUDGET TO ACTUAL COMPARISON SCHEDULES (Continued)
FOR THE YEAR ENDED JUNE 30, 2012**

	FEMA Grant Fund			Variance With Final Budget
	Original Budget	Final Budget	Actual	
Revenues:				
Investment earnings	\$ -	\$ -	\$ 74	\$ 74
Federal	-	89,754	23,575	(66,179)
Total revenues	-	89,754	23,649	(66,105)
Expenditures:				
Maintenance and operations	-	85,754	21,244	64,510
Agency management	-	4,000	143	3,857
Total expenditures	-	89,754	21,387	68,367
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(21,724)	(21,724)
Total other financing sources (uses)	-	-	(21,724)	(21,724)
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(19,462)	<u>\$ (19,462)</u>
Fund balances, beginning			19,472	
Fund balances, end			<u>\$ 10</u>	

See independent auditor's report and notes to the required supplementary information.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1 – BUDGETARY INFORMATION

A. Budget Policy and Practice

The Agency submits an annual budget to the Board of Directors. The Board of Directors formally approves the annual budget in accordance with the by-laws established by the joint power agency agreement. The Board of Directors is to prepare and adopt a budget within the first 90 days of the fiscal year.

B. Basis of Budgeting

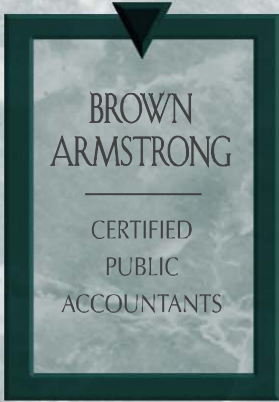
The budget is prepared under accounting principles generally accepted in the United States of America basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: maintenance and operations, administrative costs, and real property acquisition costs. Expenditures may not exceed appropriations at this level.

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	
	Flood Control Facilities Equalization Fee Fund	Levee P359 Fund	Total Governmental Funds
ASSETS			
Interest income receivable	\$ 8	-	\$ 8
Total assets	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 8</u>
FUND BALANCES			
Assigned	\$ 8	-	\$ 8
Total unreserved, designated	8	-	8
Total fund balances	<u>8</u>	<u>-</u>	<u>8</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 8</u>

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	
	Flood Control Facilities Equalization Fee Fund	Levee P359 Fund	Total Governmental Funds
Revenues:			
Assessments	\$ 8,386	\$ -	\$ 8,386
Investment earnings	33	-	33
Other government agency aid	-	-	-
Total revenues	<u>8,419</u>	<u>-</u>	<u>8,419</u>
Expenditures:			
Current operating:			
Maintenance and operations	-	12	12
Total expenditures	<u>-</u>	<u>12</u>	<u>12</u>
Other financing sources (uses):			
Transfers in	-	3	3
Transfers out	<u>(16,816)</u>	<u>-</u>	<u>(16,816)</u>
Total other financing sources (uses)	<u>(16,816)</u>	<u>3</u>	<u>(16,813)</u>
Net change in fund balances	<u>(8,397)</u>	<u>(9)</u>	<u>(8,406)</u>
Fund balances, beginning	<u>8,405</u>	<u>9</u>	<u>8,414</u>
Fund balances, ending	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 8</u>



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Stockton, California

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We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Joaquin Area Flood Control Agency (the Agency), as of and for the year ended June 30, 2012, which collectively comprise the Agency’s basic financial statements, and have issued our report thereon dated September 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency, in a separate letter dated September 17, 2013.

This report is intended solely for the information and use of management, Board of Directors, and others within the Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
September 17, 2013

**SAN JOAQUIN AREA FLOOD CONTROL AGENCY
SCHEDULE OF SIGNIFICANT DEFICIENCIES,
MATERIAL WEAKNESSES, AND RECOMMENDATIONS
JUNE 30, 2012**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to the financial statements noted?	No

Section II – Summary of Material Weaknesses

None.

Section III – Summary of Significant Deficiencies

None.

Section IV – Review of Prior Year Material Weaknesses and Significant Deficiencies

None.